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Maritime and Aeronautical Services

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August 25, 1992

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AUG 31 1992

Federal Communications Commission  
Office of the Secretary  
1919 M Street, N.W.  
Washington, D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

Re: RM-8031, Digital Selective Calling

Dear Madame or sir:

The Product Management of AT&T's Maritime and Aviation Communications Services organization wish to offer our comments regarding the U. S. Coast Guard's Petition, RM-8031, to require that the ship radio equipment include some subset of Digital Selective Calling (DSC) capability.

A significant part of AT&T's service offering to the maritime community is voice telephone interconnect making use of High Frequency radio. AT&T does not today provide maritime service using VHF frequencies.

The Product Management of AT&T's Maritime and Aviation Communications Services supports the U. S. Coast Guard's petition regarding the inclusion of Class B DSC capability for ship board HF radio systems. Additionally, we support this requirement becoming effective as soon as possible. We believe that DSC will greatly increase the ability of ship stations to signal other stations for routine as well as emergency communications, versus voice calling.

Because AT&T is not today a VHF service provider we offer no comments regarding VHF DSC requirements.

Respectfully Submitted,

A handwritten signature in dark ink, appearing to read "T. Madsen", written over a horizontal line.

Thomas Madsen,  
Product Manager

cc: Mr. Joseph D. Hersey, Jr.  
Chief, Maritime Radio &  
Spectrum Management Division  
United States Coast Guard, G-TTM  
2100 2nd Street, S.W.  
Washington, D.C. 20593-0001



A. L. (Lee) Tyree  
State Government Affairs Director

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August 31, 1992

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Commissioner David W. Rolka  
Pennsylvania Public Utilities Commission  
104 North Office Building  
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Harrisburg, PA 17105-3265

Re: Federal-State Joint Board, FCC Docket No. 83-1376

To the State Commission Members:

This letter sets forth AT&T's response to the concerns raised in your August 4, 1992 "Memorandum of Understanding" ("Memorandum") regarding the Master Agreement between AT&T and the PTI companies (Alascom, Inc., and Telephone Utilities of Alaska ["TUA"]). The Master Agreement proposes to terminate the existing Joint Service Arrangement, which the Joint Board found in 1989 raised "substantial questions,"<sup>1</sup> and to recast the Alaska telecommunications market structure so that it is identical to the structure that exists throughout the rest of the United States.

<sup>1</sup>In the Matter of Integration of Rates and Services for the Provision of Communications by Authorized Common Carriers between the Contiguous States and Alaska, Hawaii, Puerto Rico and the Virgin Islands, Supplemental Order Inviting Comments, CC Docket No. 83-1376, released January 3, 1989 ("January 1989 Order"), ¶ 58.

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As an initial matter, AT&T demonstrated several years ago that the five objectives identified by the Joint Board in its January 1989 Order (i.e., rate integration, market based competitive entry, universal service, jurisdictional revenue requirement neutrality and increased efficiency) are not fully consistent with one another<sup>2</sup>. The Master Agreement, which was developed in the absence of any response from the Joint Board after its receipt of comments on the January 1989 Order<sup>3</sup>, was the result of extensive negotiations, during which the parties attempted to harmonize the Joint Board's objectives and the FCC's goals for the Alaska telecommunications marketplace to the maximum extent possible. Nevertheless, it is indisputable that some compromise from all affected parties is necessary to create a workable telecommunications solution for Alaska. Indeed, when the Joint Board announced its objectives for Alaska, it stated that "a proper resolution of the issues before us must represent a balanced effort to achieve each of these goals,"<sup>4</sup> and Overland Consulting, Inc. ("Overland"), which has been retained to assist the Joint Board, has acknowledged that "there may be no single framework that will be completely acceptable to everyone."<sup>5</sup> Consequently, it is not possible to accommodate the recommendations of every party which submitted comments on the Master Agreement.

Second, a review of the Memorandum shows that a number of the concerns expressed therein are inconsistent with each other, and several are directly contrary to positions expressed by the Joint Board in its January 1989 Order. Moreover, the Memorandum provides no new proposal for restructuring the Alaska telecommunications marketplace, no guidance as to the relative importance of the various concerns referenced by the Joint Board, and no recommendations for resolving any of those concerns. Notwithstanding the absence of guidance in the Memorandum, AT&T responds below to each of the issues which are within AT&T's knowledge.

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<sup>2</sup>Comments of American Telephone and Telegraph Company dated April 13, 1989, CC Docket No. 83-1376, pp. 6-16.

<sup>3</sup>The January 1989 Order (¶ 36) stated that interested parties should consider their 1989 comments as their "final opportunity" to submit proposals. The Master Agreement was proposed only after the Joint Board took no action on such proposals for over two years.

<sup>4</sup>Id. ¶ 24 (emphasis added).

<sup>5</sup>Study of the Alascom/AT&T Master Agreement, Briefing Paper, prepared by Overland Consulting, Inc., dated July 21, 1992 ("Overland Report"), p. 1.

## I. Revenue Requirement Neutrality<sup>6</sup>

### A. Cost Separations Shift

AT&T and PTI have been very cognizant of the effects that shifts in TUA's revenue requirements would have upon Alaska intrastate ratepayers. Thus, contrary to the statement in the Memorandum, implementation of the Master Agreement will not immediately increase TUA's annual intrastate toll and local revenue requirement by \$30 million. Rather, the parties have requested a waiver of Part 36 of the FCC's separations rules,<sup>7</sup> so that the revenue requirement shift would occur gradually over a five-year period.<sup>8</sup> Furthermore, the Memorandum expressly acknowledges that TUA has committed to the Alaska PUC that it will not raise intrastate rates, either local or toll, during this period regardless of such shifts. Therefore, intrastate customers would not experience any rate increases resulting from the proposed change in separations procedures for five years after the implementation of the Master Agreement.<sup>9</sup>

In addition, TUA expects that its intrastate revenues will grow and its costs will decrease during the same five-year period, thus obviating any need to increase intrastate rates after the end of the waiver period. The existence of intrastate competition will provide additional pressure on TUA not to raise its intrastate rates. These conditions ought to provide reasonable assurance about the effects of the proposed separations rules changes on intrastate rates.

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<sup>6</sup>AT&T's responses are provided in the order the issues were presented in the Memorandum. AT&T has quoted the captions in the Memorandum in this response for purposes of reference only. In so doing, AT&T does not adopt any positions which may be implicit in the language of those captions.

<sup>7</sup>See Joint Petition to Approve Master Agreement, dated January 29, 1992 ("Joint Petition"), pp. 17-19 and Appendix III.

<sup>8</sup>Indeed, the Joint Board has acknowledged that such separations issues form the sole basis for the mandatory referral of this proceeding to the Joint Board and that "referral of the market structure issues was discretionary." January 1989 Order, fn. 2.

<sup>9</sup>Notwithstanding the fact that the Joint Board has chosen to describe its own objective in terms of "revenue requirements", it has acknowledged that the FCC's concern is with "the effect of any proposed market structure on intrastate rates." January 1989 Order, ¶ 15 (emphasis added).

## B. Minutes Accounting

Contrary to the position stated in the Memorandum, it is proper for TUA to count minutes of use on the circuit facilities it is leasing to AT&T, even though the lease amount is directly assigned. Unlike switching equipment, which is located at a single place and can specifically measure all minutes of use handled by that equipment, several units of circuit equipment may carry the same minutes of use. Thus, for example, a unit of circuit equipment in Fairbanks may carry the same minute of traffic as a separate unit of such equipment in Anchorage. When separations is performed on a statewide (or study area) basis, as it is in Alaska, it is appropriate to use all minutes of use transited over all of a carrier's circuit equipment. This is reflected in Section 36.126(e)(1) of the FCC's Rules<sup>10</sup>, pursuant to which the total cost of the circuit equipment in Category 4.21<sup>11</sup> is assigned to the interstate operation of the leasing carrier. Switching equipment, on the other hand, has only one category, and is separated on a minutes of use basis.<sup>12</sup>

## C. Termination of the AT&T Lease and Bypass of TUA Access

The intrastate rate impacts relating to the possibility that AT&T might not continue to lease TUA facilities to establish its Alaska POPs were not discussed prior to the execution of the Master Agreement, because AT&T had not (and still has not) conducted any engineering studies to determine the facilities it might need in Alaska after the proposed COE leases expire in 1997 or 1998. Even though AT&T has retained the right to obtain alternate facilities to establish its POPs at that time, AT&T has no current plans to do so. Furthermore, under the applicable separations rules, it is not necessary that AT&T continue to lease all of the facilities included in the proposed leases in order for TUA to count all of AT&T's Alaska MTS/WATS traffic in calculating interstate minutes on the TUA network.

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<sup>10</sup>47 C.F.R. §36.126(e)(1).

<sup>11</sup>Category 4.21 is defined as "interexchange circuit equipment furnished to another company for interstate use." (*Id.*) The circuit equipment TUA is leasing to AT&T falls into this category.

<sup>12</sup>47 C.F.R. §36.125.

D. Reduced Lease Price

After the expiration of its initial leases, AT&T will, of course, seek lease rates and terms that are competitive at that time. PTI has already stated, however, that it expects AT&T to act in such a commercially rational manner, and that it has taken this into account in its economic analyses. Finally, contrary to the assumption apparently underlying the reference to AT&T's ratepayers in the Memorandum, AT&T's payment of lease expenses to establish its Alaska POPs are endogenous expenses that cannot be passed on to its interstate customers under the price cap rules.

E. Intrastate Rates Should Be Decreasing

AT&T has no information responsive to this item. AT&T notes, however, that the premise of this concern is directly contrary to the concern in Part I.A. of the Memorandum about the impacts on intrastate ratepayers if "TUA's predictions of increased efficiencies and toll traffic are not realized."<sup>13</sup>

F. Increased Local Costs and Reduced Universal Service Fund Revenues Due to Proposed Study Area Changes

Notwithstanding the percentage change in TUA's Universal Service Fund revenues referenced in the Memorandum, the actual reduction in TUA's revenues resulting from the proposed change in its Study Area is minimal in the context of the entire transaction. Furthermore, TUA has clearly stated that its commitment not to raise intrastate rates encompasses this change.<sup>14</sup>

G. Local Private Line Rates Will Increase

Even if the approximately \$400,000 change in intrastate private line charges described in the Memorandum is correct, that change is minimal in the context of the entire transaction. Moreover, the concern with such rates at this time is inconsistent with the Joint Board's assessment of the scope of the Alaska proceeding in the January 1989 Order. At that time, the Joint Board expressly focused its attention on the MTS and WATS services of AT&T and Alascom and stated that private line issues "are not the primary focus of this proceeding."<sup>15</sup> It would be inconsistent with the January 1989 Order to allow private line issues to assume a primary role at this late date and cause further delay in the resolution of the MTS/WATS issues which predominate this proceeding.

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<sup>13</sup>Memorandum, p. 2.

<sup>14</sup>There is no evidence in the record which indicates that the Category 3 allocator will change to shift costs to local service. After implementation of the Master Agreement, TUA's Class 5 local office will carry traffic in the same manner it does now.

<sup>15</sup>January 1989 Order, fn. 38.

#### H. Miscellaneous Jurisdictional Cost Allocation Issues Exist

Despite the fact that NECA, in its comments on the Joint Petition, references the issue of TUA's classification of certain Category 4.23 equipment NECA itself expressly states that it "does not object" to the classification used by TUA for the subject equipment.<sup>16</sup> Furthermore, the Overland Report (p. 14) expressly supports this classification. Thus there does not appear to be any need to modify the proposed transaction in this regard.

### II. **Universal Service**

#### A. Cost Shift Rate Impacts

As demonstrated in the responses to Part I above, AT&T and PTI have paid particular attention to the impacts of the transaction on Alaska intrastate rates. This clearly demonstrates that service to the public will not be adversely affected by implementation of the Master Agreement.

#### B. Limitations on Provision of Service by AT&T

AT&T will provide Alaska customers with the interstate MTS/WATS services now provided by Alascom immediately upon the implementation of the Master Agreement. For services offered primarily to residential consumers, the only AT&T services that are not currently offered by Alascom are the Anyhour Saver® optional calling plan<sup>17</sup> and a recently introduced inbound service marketed under the name AT&T EasyReach<sup>SM</sup>, a 700 based service. In addition, after implementation of the Master Agreement, AT&T's tariffs for domestic interstate MTS/WATS services would apply to Alaska customers in the same way they are applied to customers in the lower 48 states. Thus, AT&T's offering and/or provisioning of any particular service not presently offered by Alascom would depend upon application of the same factors, such as customer demand and the availability of billing and technical capabilities, as are considered for customers in the "lower 48".

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<sup>16</sup>Comments of National Exchange Carrier Association, Inc. dated April 20, 1992, CC Docket No. 83-1376, p.11.

<sup>17</sup>AT&T's optional calling plans, including the Anyhour Saver Plan, are available to most, but not all, customers in the "lower 48". The availability of such plans in specific areas is subject to AT&T's ability to obtain appropriate billing services from LECs at rates which are reasonable compared to the number of customers AT&T anticipates will purchase the service. As a result, customers in many areas served by small LECs cannot obtain such services. See AT&T's Tariff FCC No. 1, Section 7. AT&T is currently evaluating the development of billing capability that would enable Alaska customers to subscribe to the Anyhour Saver Plan after implementation of the Master Agreement.

### C. Absence of a Carrier of Last Resort

A number of commenters and the Joint Board have discussed the need for a "carrier of last resort" in Alaska. Despite the fact that there is no explicit FCC policy or regulation requiring a "carrier of last resort" anywhere in the United States, AT&T recognizes that the Joint Board's concern is to assure that all Alaskans will have access to telephone services. The Master Agreement assures that the Joint Board's goal of universal MTS/WATS service will be achieved.

TUA has already requested permission from the Alaska PUC ("APUC") to assume Alascom's obligation to provide intrastate interexchange service to all permanent communities of 25 or more inhabitants. TUA's assumption of Alascom's obligation would be fully consistent with the proposed resolution described by the Joint Board in the January 1989 Order (¶ 30), in which it stated, "We would anticipate that the carrier with statewide service obligations [i.e. Alascom] would serve as the carrier of last resort."

The resolution provided by the Master Agreement is perfectly logical, because TUA will use the same facilities to provide statewide intrastate interexchange services and interstate access services. AT&T, for its part, has agreed to provide interstate services to customers wherever the LEC has made arrangements to meet AT&T's POPs. Thus, as long as TUA meets its obligations to the APUC -- and there is no indication that it would not do so -- access to AT&T's interstate service will be available to customers throughout the state. AT&T's commitment here is identical to the commitments it has throughout the rest of the country, in which "carrier of last resort" obligations, if any, reside exclusively with local exchange carriers.

The Memorandum's reference to a private line "carrier of last resort" is both puzzling and completely contrary to the position taken by the Joint Board in the January 1989 Order. In the Order (fn. 38), the Joint Board not only found that interstate private line service "was not the primary focus of this proceeding," its discussion of universal service (¶ 29) states only that the Joint Board tentatively concluded that a carrier of last resort should be provided for "message service." Furthermore, there is no "lower 48" precedent of any kind for establishing a carrier of last resort for private line services. The Joint Board has already recognized (id., ¶ 11) that AT&T does not provide any private line service in Alaska, and the Master Agreement does not make any changes in the provision of interstate private line service. Thus it would be unprecedented, unnecessary and unfair to attempt to impose a mandatory private line service requirement on AT&T.



### III. Rate Integration

The Memorandum expresses a concern that the Master Agreement does not provide for integration of private line rates. However, the proposed restructuring of the Alaska telecommunications marketplace described in the Master Agreement affects only MTS/WATS service. Furthermore, the Joint Board itself has expressly noted that "[u]nder the existing arrangements, rate integration applies only to interstate MTS and WATS," and concluded that "continued integration of interstate MTS and WATS rates is necessary to insure that all Alaska residents are able to participate fully in the social, economic and political life of our nation."<sup>18</sup> Thus the Joint Board stated that it proposed "to develop an Alaska market structure recommendation that provides for the continued availability of interstate MTS and WATS services at integrated rates for all Alaska residents."<sup>19</sup> There is no dispute that the Master Agreement squarely meets this objective.

### IV. Competition

#### A. Alaska Spur

AT&T does not object to the fact that NSI would, in effect, be a non-dominant carrier for private line services in Alaska.

#### B. With the Exception of AT&T, Interexchange Carrier Costs Nationwide Increase by \$8 Million

AT&T has acknowledged this increase in access expense for other IXC's, but believes that it represents a fair sharing of the industry's role in providing cost support "in order to assure universal service in Alaska."<sup>20</sup> This equitable sharing is an essential part of the entire integrated transaction incorporated in the Master Agreement. Moreover, such an expense, which is trivial in connection with the total access expenses of the other IXC's,<sup>21</sup> arises from TUA's participation in the NECA pool, i.e., use of the same cost sharing mechanism applied everywhere else in the country. For the IXC's, this expense represents the opportunity cost of being assured of the availability of reasonably priced access services in Alaska.

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<sup>18</sup>January 1989 Order, fn. 38, ¶ 25 (emphasis added).

<sup>19</sup>Id., ¶ 25.

<sup>20</sup>January 1989 Order, ¶ 3. The Overland Report (p. 8) concurs in this assessment.

<sup>21</sup>See Joint Petition, pp. 13-14.

C. Non-NECA Interexchange Carriers Will Compete  
Against NECA Rates in Certain Markets

In its January 1989 Order (§ 27), the Joint Board specifically stated that "rate support or other special treatment should not be made available to competitive entrants in the Alaska interstate market....[because it] sends improper economic signals and could lead to the development of uneconomic duplicative facilities, thereby impairing efficiency." Thus the Joint Board has already concluded, based upon the FCC's direction,<sup>22</sup> that the kind of competition referenced in the Memorandum is uneconomic and should be discouraged. It should make no difference whether the services involved are end-to-end interstate services or interstate access services.<sup>23</sup>

This conclusion is both fair and sound. TUA has agreed to accept mandatory service obligations that are not (and should not be) imposed on any other carrier. In return for accepting those obligations, TUA should be permitted to participate in the NECA pool, just like all other LECs. TUA's participation in NECA, however, should not entitle others who do not have similar obligations to benefit from the NECA pooling process.

D. NECA Carriers Will Become Less Competitive

Even though NECA rates will be increased by some amount, it is unlikely that the overall impact on NECA carriers will be significant. Indeed, NECA's comments to the FCC on the Joint Petition did not raise this as a concern. Therefore, this issue should not impede the implementation of the Master Agreement.

E. NSI/TUA Allocations

AT&T does not have information responsive to this item.

F. AT&T Lease

The concern that TUA may have offered "noncompetitive" lease rates to AT&T is unjustified. TUA has expressly offered leases to other IXCs on similar terms. Furthermore, this concern is completely at odds with that expressed in I.D. above, i.e., that AT&T paid too much, not too little, for these leases.

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<sup>22</sup>See January 1989 Order, § 15 ("the Commission...[stated] that we should avoid approaches that create incentives for uneconomic facility duplication.").

<sup>23</sup>See January 1989 Order § 60 (Joint Board opposes all mechanisms "that would give nondominant competitive entrants in the Alaska market benefits in the form of reduced costs or direct payments from a high cost pool.")

### **G. Undisclosed Inter-Carrier Agreements**

It is incorrect to describe the inter-carrier agreements referred to in the Memorandum as "undisclosed." PTI and AT&T expressly offered to make copies of such documents available to the Joint Board's representatives,<sup>24</sup> and these agreements have been produced, subject to a confidentiality order, in connection with the APUC proceeding. In any event, these agreements do not contemplate that TUA will actively promote any AT&T service, and AT&T does not intend to permit TUA actively to promote AT&T services. Rather, the agreements provide that TUA will act, in a responsive mode, to customer requests for information about, or to order, the identified services. Furthermore, the referenced agreements are non-exclusive and specifically contemplate that TUA may provide similar services for any other IXC.

### **V. Increased Efficiency**

#### **A. NECA Pooling**

As discussed in Part IV.C. above, the "anticompetitive" concerns referenced in the Memorandum have already been rejected in the January 1989 Order. Finally, this issue further highlights the need to strike a balance among the Joint Board's objectives, because TUA's ability to participate in NECA, which is critical to the objectives of rate integration and universal service, is being criticized because of alleged effects upon other objectives, i.e., efficiency and competition.

#### **B. Efficiencies Can Occur Without the Master Agreement**

AT&T has no information responsive to this item.

### **VI. Miscellaneous**

#### **A. Payments to TUA**

AT&T has no information responsive to this item.

#### **B. TUA Participation in NECA**

It is completely appropriate for TUA to participate in NECA. Such participation is consistent with the principles stated by the Joint Board in the January 1989 Order. See Part IV.C. above.

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<sup>24</sup>PTI's Response to Joint Board Request No. 1, dated February 5, 1992, Response to Question 30.

### C. United Utilities, Inc. Co-Ownership

As explained in the Joint Petition (p. 26), the Master Agreement does not change the status quo for United Utilities' accounting for its co-owned earth stations and this issue is properly before another Joint Board in CC Docket No. 80-286, where it can be appropriately resolved.<sup>25</sup> If this Joint Board believes that it must address the UUI issue in this proceeding, the matter can be dealt with at a later date. Given the inordinate amount of time that has elapsed since the commencement of the Alaska proceeding, there is no reason that resolution of the principal issues in this docket should be delayed for this tangential matter.

### D. AT&T Treatment of Expenses Under Price Caps

Contrary to the statement in the Memorandum, AT&T's proposed treatment of expenses is consistent with the Price Cap Rules. Reductions in AT&T's general operating expenses which may occur because of the implementation of the Master Agreement are the result of actions taken by AT&T in proposing this solution for the Alaska telecommunications structure and agreeing to purchase Alascom's interstate and international MTS/WATS business. The rules specifically provide that expense reductions (or increases) which result from a carrier's own actions are endogenous.<sup>26</sup>

The price cap rules do not, however, allow AT&T to treat all increases in access costs relating to implementation of the Master Agreement as exogenous changes which would permit an increase in its price caps. The only access increases that AT&T may recognize as exogenous are those resulting from increases in access providers' access rates, not increases in AT&T's total access expenses.<sup>27</sup> Therefore, AT&T will not be able to treat as exogenous the entire cost of access it will purchase from TUA in Alaska. Rather, exogenous treatment will apply only as a result of the increases that AT&T pays due to increases in the NECA access rates.

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<sup>25</sup>This Joint Board stated that it would consider this issue only because it had not been specifically addressed in Docket No. 80-286. January 1989 Order, ¶ 6.

<sup>26</sup>One of the principal underlying purposes of the price cap rules was to give carriers incentives to lower their operating expenses.

<sup>27</sup>See, 47 C.F.R. §61.44(b) (definition of  $\Delta Y$ ).

In sum, the Master Agreement is consistent to the maximum extent possible with the Joint Board's objectives of universal service, MTS/WATS rate integration and revenue requirement neutrality.<sup>28</sup> The development of a proposal which meets those objectives has required AT&T and PTI to devote thousands of hours of time and resources and to make substantial compromises from their earlier positions to create a structure that will enable Alaska to participate fully in the national telecommunications marketplace. Given the fact that the Joint Board has already expressed their concern that the existing AT&T-Alascom arrangements also raise "substantial questions,"<sup>29</sup> implementation of the current proposal ought not to be further delayed by last-minute changes in direction or by tangential matters that do not affect the central issues in the Alaska proceeding.

We would be pleased to meet with you to provide further explication of the matters discussed in this response. We look forward to a prompt and successful conclusion to this long process.

Sincerely,

A handwritten signature in cursive script, appearing to read "A. L. Tyree".

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<sup>28</sup>The Joint Board has stated that its other goals "should not be implemented at the expense of" these three objectives. January 1989 Order, ¶ 24.

<sup>29</sup>January 1989 Order ¶ 58.

**CERTIFICATE OF SERVICE**

I, Katy M. Lindsay, certify that the following is true and correct:

I am a citizen of the United States, State of California, am over eighteen years of age, and am not a party to the within cause.

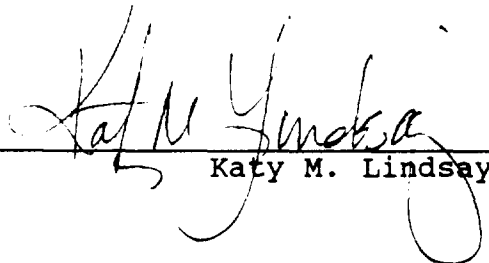
My business address is 795 Folsom St., Room 240, San Francisco, California, 94107.

On August 31, 1992, I served the foregoing document upon all known parties of record in this proceeding by mailing by first-class mail a copy thereof properly addressed in accordance with the attached list.

Executed this 31st day of August, 1992, at San Francisco, California.

AT&T COMMUNICATIONS OF CALIFORNIA, INC.  
795 Folsom Street  
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By

  
Katy M. Lindsay

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Chairman  
Federal Communications  
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